The Department of Finance Annual Report
For Fiscal Year Ending March 31, 2012

Newfoundland Labrador

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MESSAGE FROM THE MINISTER

In accordance with Government's commitment to greater accountability and transparency, I am pleased to present the 2011-12 Annual Report for the Department of Finance. Its purpose is to account for the progress made towards achieving the intended results of the 2011-14 Strategic Plan and to measure performance within key business areas. As Minister responsible for the Department of Finance, my signature below is indicative of my accountability for the actual results reported within this document.

I would like to take this opportunity to acknowledge the outstanding accomplishments and commitment of the employees in the Department of Finance. I look forward to your continued support and dedication.

Sincerely,

Thomas Marshall, Q.C.
Minister of Finance

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1.0 INTRODUCTION

In accordance with the *Transparency and Accountability Act*, this document is the Department of Finance's 2011-12 Annual Report. The document provides general information about the Department's mandate and lines of business, and the overall environment in which it operates. It also highlights some of the Department's key accomplishments for the 2011-12 fiscal year and reports upon the progress achieved towards the priorities outlined in the 2011-14 Strategic Plan. The document also summarizes some of the anticipated key challenges for the 2012-13 fiscal year and presents the Department's strategic annual performance milestones.

VISION

A VIBRANT and SELF-RELIANT ECONOMY and PROSPEROUS PEOPLE

MISSION STATEMENT

By March 31, 2017, the Department of Finance will have supported Government in its commitment to fiscal sustainability and a healthy economy for the Province.

2.0 DEPARTMENTAL OVERVIEW

The Department of Finance is responsible for providing a strategic leadership role for Government in the development of fiscal, financial, economic and statistical policy. It is also responsible for overseeing the management and control of provincial finances to ensure appropriate use of public funds. The following sections provide additional detail on the mandate of the Department, its lines of business, organizational structure, financial resources and budget allocations, and staffing complement.

2.1 Mandate:

The Department of Finance plays a key role in establishing, implementing and reviewing Government's financial management, economic, fiscal and taxation policies. These responsibilities are primarily achieved through the provision of timely analysis and advice to Cabinet and its committees, particularly the Treasury Board Committee for which the Minister of Finance serves as President. The Department is also the central agency responsible for the provision of financial policy advice and various services to other government departments and its employees. Specifically, the Department is responsible for all matters related to:

- Financial planning and budget monitoring
- Tax policy and the administration of tax statutes
- Centralized collections of Government's outstanding accounts payables and receivables
- Fiscal policy
- Federal/provincial fiscal arrangements
- Debt management
- Project analysis
- Administration of pensions benefits
- Administration of group and general insurance
- Comptrollership and financial management
- Economic policy and statistics
- Management and administration of compensation and benefits for government employees
- Management of transactional processing of Government's accounts receivables and payables

2.2 Lines of Business

The mandate of the Department of Finance is delivered to its primary clients through the following four principal lines of business:

Financial Planning and Benefits Administration

The Department of Finance coordinates the preparation of Government's annual budget and then monitors expenditures by government departments. It also sets financial polices for government entities, provides advice related to multi-year expenditure plans and recommends allocations of financial resources. Operational support and financial and analytical advisory services are also provided to the Treasury Board Committee of Cabinet to support their financial management responsibilities. Similar financial expertise is also provided to the other committees of Cabinet, as well as government departments in support of the cabinet decision-making process. Additionally, the Department administers six provincial pension plans and develops and manages the policies, programs and contracts respecting risk management and group insurance for select government entities and public sector employees/retirees.

Taxation and Fiscal Policy

The Department of Finance develops options for taxation reform; assesses the implications of changes to existing provincial taxation and fee policies; and, implements legislative measures in support of Government's tax and fiscal policy priorities. It also participates in the negotiation and monitoring of federal-provincial tax and fiscal agreements and forecasts, analyzes and monitors provincial revenues. The Department manages the Province's borrowing and debt servicing programs; provides centralized financial and economic impact analysis of specific projects to assist Government in decision making and/or policy development; and administers various provincial taxes, rebates and incentive programs, which include:

- tobacco tax
- gasoline tax
- school tax
- mining and mineral rights tax
- utilities tax

Office of the Comptroller General

The Department of Finance controls and accounts for the receipt and disposition of public money through the development of financial policies and procedures, administration of applicable legislation and the preparation of the provincial financial statements (i.e. Public Accounts) and related financial reports. The Department also develops and maintains government-wide revenue and expense systems and ensures that effective financial management controls, systems and accounting procedures are in place and government departments are properly accounting for their revenues and expenses. These systems and procedures are in place to ensure that no payment of public money occurs that is in excess of the appropriations

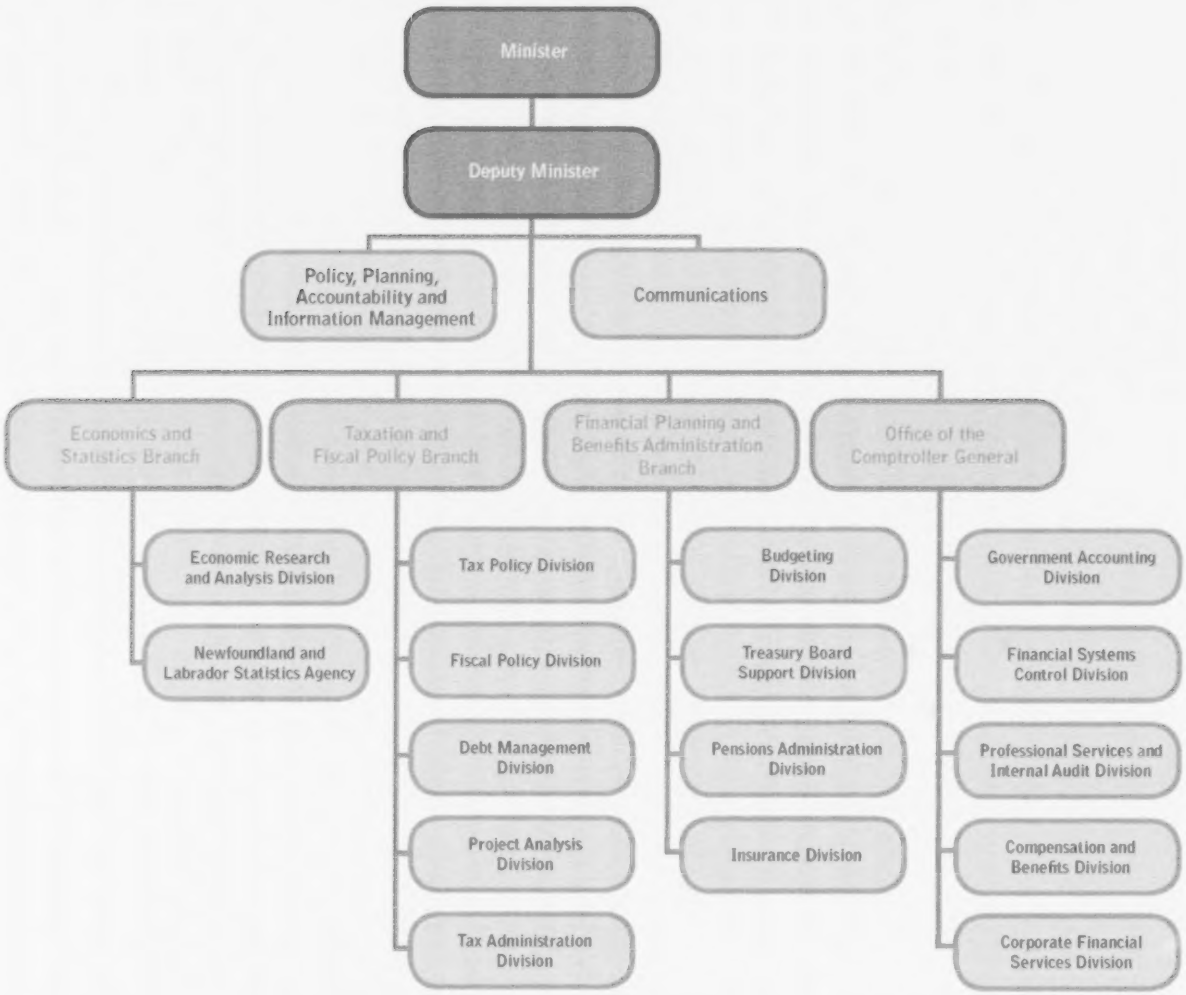
provided by the House of Assembly and applicable legislative authority. Professional advisory services are also provided to government departments in the areas of: financial management, accounting and systems; financial policy development and implementation; internal auditing; and financial reporting. Corporate shared services are also delivered by this Department to other government departments. The Department of Finance administers and processes payroll, time and attendance transactions for government departments and develops business processes and related policies that will impact accounts payable and accounts receivable.

Economics and Statistics

The Department of Finance analyzes and forecasts the macroeconomic environment, which feeds into the Province's revenue projections. It also provides economic impact assessments and special studies related to policy, economic events and projects. It maintains and operates the Newfoundland and Labrador Econometric Model, the Input/Output Model, and the Population Projection Model and is responsible for the annual publication of *The Economy* and *The Economic Review*. The Department also fulfills a vital statistical role for Government by collecting, storing and disseminating information that is accessible to clients while guaranteeing confidentiality and privacy of individual information. This is achieved through the Newfoundland and Labrador Statistics Agency under the authority of the *Statistics Agency Act* which mandates the Agency. The Department acts as Government's official point of contact with Statistics Canada, develops and provides focused sub-provincial data through Community Accounts and provides expertise in spatial analysis and socio-economic simulation modeling.

2.3 Organizational Structure

The effective and efficient delivery of its programs and services is supported by an organizational structure that consists of the four distinct branches as depicted in the diagram on page 5. Additionally, all branches and divisions within the Department are supported by the Policy, Planning, Accountability and Information Division and the Communications Division.



For further information regarding the specific mandate of each division please refer to the Department's website at www.gov.nl.ca/fin/.

2.4 Staffing Complement:

During the 2011-12 fiscal year, the Department employed 432 individuals (68% female and 32% male). These employees provided professional expertise in such areas as accounting, economics, statistics, financial management, public policy, information technology and management, administrative support, and human resources.

The headquarters for the Department of Finance is the Confederation Building, with staff dispersed throughout the East and West Blocks. Additionally the Department had some staff located in Mount Pearl at the Motor Registration Division, on Topsail Road, and in Corner Brook and Grand Falls-Windsor. Contact information for all office locations is available on-line at www.gov.nl.ca/fin/.

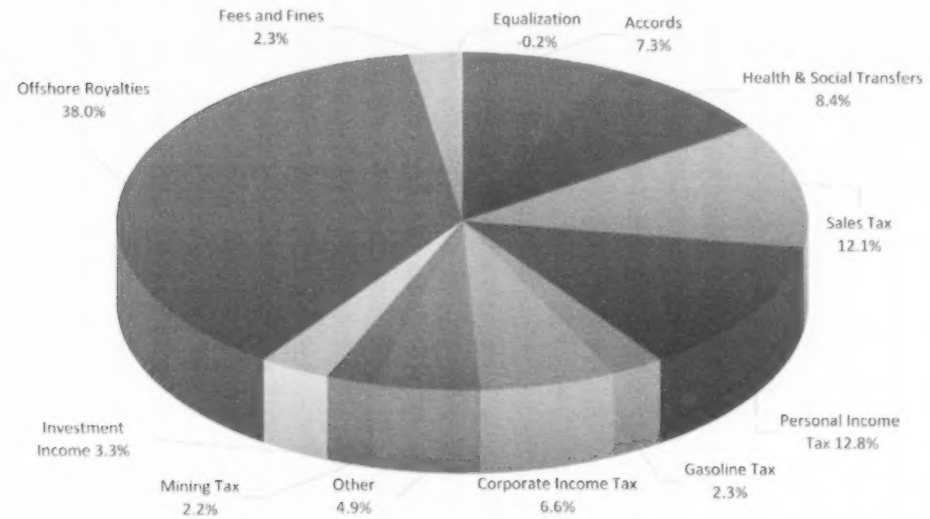
2.5 Financial Resources and Budgetary Allocations:

The financial activities of the Department of Finance for fiscal year ending March 31, 2012 showed gross expenditures of $94,921,855 million, offset by related revenues of $3,877,552 million (see page 22 for further details). The following table provides additional information comparing expected to actual departmental expenditures.

SUMMARY OF DEPARTMENTAL BUDGET FISCAL YEAR ENDING MARCH 31, 2012		
Expenditures	Original Budget $	Actual $
Salaries	27,930,800	23,235,602
Employee Benefits	65,712,000	68,015,852
Transportation and Communications	1,011,700	860,549
Supplies	782,600	427,398
Professional Services	833,000	471,669
Purchased Services	2,048,700	1,737,036
Property, Furnishings and Equipment	99,300	155,849
Loans and Advances	500,000	-
Allowances and Assistance	50,000	15,650
Grants and Subsidies	6,003,000	2,250
Gross Expenditures	**104,971,100**	**94,921,855**
Less: Related Revenue	(5,369,400)	(3,877,552)
Net Expenditures	**99,601,700**	**91,044,303**

In addition to the related revenues identified as part of the Department of Finance's budgetary allocation, the Department has stewardship over substantially all of the current account revenues generated by the Province. During 2011-12, current account revenues totaled approximately $7,366,822,000 of which about 38.0% is attributed to oil royalties. The following pie chart depicts provincial current account revenues by source.

2011-12 Current Account Revenue
(Modified Cash Basis)



Expenditure and revenue figures included above are on a modified cash basis. The figures are un-audited and based on the information provided in the *Report on Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2012*. Audited financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles for the public sector. They will be made public upon the release of **Volume I – Public Accounts Consolidated Summary Financial Statements and Volume II - Consolidated Revenue Fund Financial Statements**.

3.0 REPORT ON PERFORMANCE

During the 2011-12 fiscal year, the Department of Finance developed a new strategic plan which encompasses the 2011-12, 2012-13 and 2013-14 fiscal years. The Department's progress toward addressing the issues identified in the strategic plan is detailed below.

3.1 Strategic Issue #1: Information Capacity

The Province's changing demographics and economic growth have the potential to significantly alter the programs and services currently provided by the Government of Newfoundland and Labrador. Government has therefore taken measures to ensure public service delivery is versatile to adapt to people's changing needs, user-friendly and clearly focused on priorities. The Department of Finance contributes towards this strategic direction of Government through the provision of reliable and timely information and analysis on the impacts of these potential changes and their influences on the design and delivery of programs and services. A precursor to the ability of the Department of Finance to provide this type of information and analysis is the development of demographic and macroeconomic indicators and regional economic forecasts. Therefore, the Department's 2011-14 Strategic Plan identified the following goal:

> *By March 31, 2014, the Department of Finance's contribution to Government's decision-making processes as it relates to the design and delivery of programs and services is enhanced.*

The Department's success towards this goal will be measured by reporting progress towards the following results:

- Developed and provided to relevant government departments:
  - New regional economic forecasts, including the impacts of sub-provincial performance on labour demand and supply
  - Indicators of income disparities that have not been previously available, which arise due to changes in demographics and economic growth for groups such as:
    - Retired persons living in low income
    - Non-retired persons with falling real incomes possibly due to barriers to full employment
- Indicators of risk that have not been previously available pertaining to those unable to afford housing or shelter
- Improved accessibility to information for youth and others that can assist in the identification and development of careers within the public service as a means of addressing Government's decision making process pertaining to the anticipated human resource labour market gaps arising from the wave of retirements expected within the next 10 years

2011-12 Performance Summary:

During the 2011-12 fiscal year, the Department of Finance set the following objective as its first milestone towards obtaining this strategic goal:

> *By March 31, 2012, the Department of Finance will have conducted a feasibility assessment to determine the most efficient and effective means of providing information and analysis on the impacts of provincial demographic and economic change on the design and delivery of Government programs and services.*

The Department achieved this objective as evidenced by the completion of a feasibility assessment for the development of regional economic forecasts, indicators of risk for residents being unable to afford housing and/or shelter, and indicators of income disparities emerging for retired individuals living on low incomes and others challenged by barriers to full time employment. The actual results achieved are provided as follows:

MEASURE: CONDUCTED A FEASIBILITY ASSESSMENT	
Planned Performance	Actual Performance
Regional Economic Forecasts:	
Determined the feasibility of producing regional economic/labour market (supply and demand) forecasts	The feasibility of producing regional economic and labour market (supply and demand) forecasts was completed by reviewing potential data sources provided by Statistics Canada. The results concluded that suppression in the data to protect confidentiality would constrain the Department's ability to produce meaningful regional forecasts.
Developed a plan to outline and guide the completion of the work	Due to the limitations of the data (as described above), priorities were adjusted to support the in-house development of micro-level data to fill in the information gaps. The full plan for completion of this work is pending final determination of the data available.
Indicators of Disparities:	
Determined the most effective indicators for identifying retired and non-retired persons at risk	Various types of indicators were considered to determine the most effective means of supporting the identification of income disparities emerging for retired individuals living on low incomes and others challenged by barriers to full time employment.
Explored the availability of data to support the development of these indicators	Family Tax data from Statistics Canada used for the analysis of individual income levels was identified as the most feasible data source for the development of the indicators identified for income disparity.

Planned Performance	Actual Performance
Indicators of Risk:	
Determined the potential indicators of risk for those challenged to afford housing and/or shelter	Several low income severity thresholds were identified as potential indicators of risk for those challenged to afford housing and/or shelter: • NLMBM50 - Low income families and individuals with less than half the required disposable income to purchase the standard living necessities (as defined by the NLMBM Market Basket in their community) • NLMBM Housing Affordability30 - Low income families and individuals required to spend more than 30% of their disposable income on the NLMBM standard of shelter in their community. • NLMBM Housing Affordability 50 - Low income families and individuals required to spend more than 50% of their disposable income on the NLMBM standard of shelter in their community.
Assessed the data available to support the development of those indicators	Income data from Statistics Canada was identified as a data source for the development of housing affordability indicators.
Information Accessibility:	
Identified occupational data sets of the core public service	In partnership with the Public Service Secretariat, the Department developed data (and a system to support sharing that data) to support post-secondary graduates in their career planning. The data identifies potential job opportunities in the public service, resulting from retirements. The Department worked with the Public Service Secretariat to identify the occupational data sets of the core public service and then use those data sets to build an on-line application. The application has been piloted and it is expected to be made available some time during the 2012-13 fiscal year.

3.2 Strategic Issue #2: Financial Planning

A fundamental role for the Department of Finance is to support Government in its financial planning processes. This is achieved primarily through the provision of timely and accurate analysis and advice related to revenue and expenditure forecasting and economic expectations anticipated for immediate, medium and long-term scenarios. It is therefore crucial for the Department to ensure that its capacity to provide financial planning advice is top-notch and adaptive to the continuously fluctuating factors which impact Government's decision-making processes.

A key supporting component of the Department's capacity to meet these expectations is technology and the corresponding business processes. Therefore, a strategic focus for the Department over the last several years has been the development and implementation of a new budgeting system. This new system was designed to assist in budget preparation and monitoring, budget forecasting, preparation of the Estimates, preparation of the Salary Details and budget reporting with the intent to streamline operations thereby achieving improved efficiencies. The Department is still working to realize the full capacity of this new technology and take advantage of its ability to support Government's financial planning processes.

The Department of Finance has therefore focussed its efforts on enhancing its financial planning processes by streamlining the integration of revenue and expenditure forecasting, as referenced in its 2011-14 Strategic Plan by the following goal:

By March 31, 2014 the Department of Finance will have improved the integration of its revenue and expenditure forecasting capabilities.

The Department's success towards this goal will be measured by reporting progress towards the following results:

- Implemented an advanced integrated, robust revenue and expenditure forecasting model
- Provided revenue and expenditure policy advice based on the output obtained from the new forecasting model which incorporates varying world-wide resource prices and takes into consideration anticipated provincial economic and demographic change

2011-12 Performance Summary:

During the 2011-12 fiscal year, the Department of Finance set the following objective as its first milestone towards obtaining this strategic goal:

By March 31, 2012, the Department of Finance will have integrated its revenue and expenditure forecasting processes into a new budget preparation system.

The measurement of success for the Department of Finance in achieving this objective was the integration of revenue and expenditure forecasting processes. This was to be achieved by developing, testing and then implementing the necessary systems interfaces within the new budget system, importing the revenue forecasting data and integrating it with the expenditure information. The benefits of these adjustments include the streamlining of the budget preparation process, reduced probability of error, and decreased occurrence of manual tasks. The actual results achieved are provided as follows:

MEASURE: INTEGRATED FORECASTING PROCESSES INTO A NEW BUDGET PREPARATION SYSTEM	
Planned Performance	Actual Performance
New budgeting system is developed	A new budgeting system was developed and implementation of this system was a phased-in approach. During the 2011-12 fiscal year, the cash-based model component of the new budgeting system was implemented and used to support the development of the 2012-13 budget.
Budget preparation process is streamlined	Implementation of the cash-based model component of the new budget system streamlined the 2012-13 budget preparation process. Information from government departments was made available to the Budgeting Division in the Department of Finance in real time. Previously this information exchange was a manual and time-consuming process. The information is now directly input into the new budget system by the departments, eliminating the need to merge data from multiple sources.
Revenue forecasting data is imported into the new budgeting system	As mentioned above, implementation of the new budgeting system was a phased-in approach and required the development of multiple model components. The integration of revenue and expenditure forecasting required the development of the accrual-based model. Given the magnitude of the project and the potential risk associated with implementing a new budget system to support the preparation of Government's annual budget, the implementation of the accrual-based model (including importing revenue forecasting data into the new budget system) was deferred to the 2012-13 fiscal year.

Planned Performance	Actual Performance
Risk for error in budget preparation is reduced	The risk of error in the preparation of the 2012-13 budget was reduced as evidenced by elimination of manual tasks that were once required to complete the cash-based accounting portion of the budget preparation process. As mentioned previously, the information required to prepare Government's annual budget was extracted from multiple sources and then manually imported into the budget system. With the implementation of the cash-basis model component of the new budget system, departmental data sources were consolidated through the new budget system.
Occurrence of manual tasks by current resources is reduced	The occurrence of manual tasks was significantly reduced through the implementation of the new budgeting system as evidenced by the 30% reduction in overtime required by staff working to prepare the budget documents.

3.3 Strategic Issue #3: Financial Management

The general public demands an open and accountable government - one that protects their interests. This includes the proper management of the public purse. In this Province the *Financial Administration Act* (FAA) confers various financial responsibilities and authorities pertaining to the stewardship of public money to the Department of Finance. As such, the Department ensures that public money is properly disbursed, collected, and invested and that the appropriate checks and balances are in place for accurate receipting, expenditure and recording of public funds.

Consistent with Government's strategic directions, the Department has focussed its efforts in financial management on two primary areas:

- **Financial Reporting Capabilities**
  A key component to sound financial management practices is a comprehensive corporate reporting process for Government's financial management system. As new technologies emerge and the financial reporting needs of Government expand, a demand arises for a robust and flexible financial reporting framework that can improve information quality, information availability, and reporting scalability.

- **Responsible Management of Pension Fund Assets**
  In recent years Government has made significant strategic investments to reduce the Province's unfunded liability and stabilize pension plans. While these payments have improved the funded ratios of the pension plans, it is important that the Province's unfunded pension liability continue to be monitored to maintain the sustainability of the plans.

In it's 2011-14 Strategic Plan, the Department of Finance therefore identified the following goal:

By March 31, 2014, the Department of Finance will have enhanced its internal business processes to ensure continued sound financial management practices.

The Department's success towards this goal will be measured by reporting progress towards the following results:

- Improved Government's capacity for corporate financial reporting
- Where feasible, implemented strategies to better manage the unfunded pension liability and the post-retirement benefits liability

2011-12 Performance Summary:

During the 2011-12 fiscal year, the Department of Finance set the following objective as its first milestone towards obtaining this strategic goal:

By March 31, 2012, the Department of Finance will have made significant progress towards the development of a new corporate financial reporting framework for Government to aid in the cost analysis of Government programs and services.

The measurement of success for the Department of Finance in achieving this objective was the completion of significant milestones towards the development of a new corporate reporting financial tool. These milestones were to include the identification of technical considerations; determination of the corporate reporting needs of government departments; and, the development of core corporate financial reporting templates. The actual results achieved are provided on the following page:

MEASURE: PROGRESSED TOWARDS THE DEVELOPMENT OF A NEW CORPORATE FINANCIAL REPORTING FRAMEWORK	
Planned Performance	**Actual Performance**
Identified technical considerations for the development of a corporate reporting tool in consultation with the Office of the Chief Information Officer	The Department of Finance identified the need to enhance the capability of Government to produce various types of financial monitoring reports from its Financial Management System. To this end, a partnership was established with the Office of the Chief Information Officer to develop a new financial reporting framework to support sound and responsible financial management practices. Due to the development of new priorities which required immediate attention, the scope of this project was adjusted. Instead of developing a new corporate reporting tool, the Department, in consultation with the Office of the Chief Information Officer, redefined its focus to enhancing the existing financial reporting tools. With this in mind, the Department consulted with other government departments to determine their financial reporting needs, consulted with the OCIO regarding the technical considerations of user needs and then prioritized the development of new reporting templates. Work was initiated to refine current financial reporting templates, to improve the capacity to meet financial reporting information needs and the time required to produce these reports.
Determined the corporate reporting needs of government departments	
Developed templates for core corporate financial reports	

4.0 SHARED COMMITMENTS

The mandate of the Department of Finance requires that it develop effective working relationships with other government departments and agencies to achieve strategic and operational priorities. As such, much of the performance achieved during the 2011-12 fiscal year (and already reported on in the previous section of this document) was made possible because of the Department's partnerships with other government departments and agencies and a shared commitment to achieving common results. Additional accomplishments made possible by these collaborative relationships are detailed below.

Pre-Budget Consultation Process:

A crucial part of the budget preparation process is consultation with community groups, municipalities, business and professional associations, special interest groups and individual citizens within the Province. This provides Government the opportunity to further its understanding of the priorities of the people of the Province.

During the development of 2011-12 provincial budget the Department of Finance facilitated this consultation process by organizing a series of town hall meetings in various locations across the Province. Invitations were extended to all residents in each location and each meeting was led by the Minister of Finance and President of Treasury Board, the Honourable Tom Marshall. Additionally, the Department of Finance served as the main point of contact for those wishing to provide Government with a written submission outlining their perspectives for consideration in the budget preparation process.

Long-term Care Projections:

The aging population has considerable implications for the provincial healthcare system, particularly regarding the demand for long-term care. Government therefore requires accurate and reliable predictions of demand for long-term care. As Government's central source of demographic information and analysis, the Department of Finance partnered with the Department of Health and Community Services to develop a long-term care model to predict the demand for services.

Access to Disability Saving Plans:

In partnership with the Department of Justice and the Department of Advanced Education and Skills, the Department of Finance contributed towards the development of legislative amendments designed to make it easier for adults with intellectual disabilities to avail of the federal registered disability savings plans (RDSP). Previously, an independent adult with intellectual disabilities required a legal guardian to administer the RDSP, a process that proved to be time consuming and requiring court action. The legislative amendments brought forward during the 2011-12 fiscal year sought to streamline this process by providing the intellectually

disabled adult the ability to designate a representative to communicate on their behalf with the necessary financial institutions to create and manage the RDSP. This has provided intellectually disabled adults the capability of availing of RDSPs and the provincial programs which contribute towards such financial savings plans.

5.0 HIGHLIGHTS AND ACCOMPLISHMENTS

In addition to the results reported in the Report on Performance section of this document, the following provides information on other key accomplishments of the Department of Finance.

2011 Public Service Award of Excellence

Jodi Penney, an employee of the Department of Finance, was honoured by Premier Kathy Dunderdale and Robert Thompson, the Clerk of the Executive Council, at the annual awards ceremony for the Public Service Award of Excellence. Ms. Penney was recognized for her outstanding work ethic and commitment in supporting the transition of staff into the new Corporate Financial Services (CFS) Division of the Department of Finance. This transition occurred over a couple of years and included the reallocation of staff from other government departments into the Department of Finance and the establishment of a new office on Topsail Road. Ms. Penney has helped to build a strong team environment within the CFS Division and is often thought of as the backbone to the Division. Ms. Penney truly personifies the values upheld by the Public Service Award of Excellence and is most deserving.

Residential Energy Rebate Program:

During the 2011-12 fiscal year, the Department of Finance developed and implemented the Residential Energy Rebate Program. This is a tax rebate that is equal to 8% of the provincial portion of the HST charged to citizens of this Province on residential electricity ad heating. The rebate is available to all residents regardless of income who are invoiced for energy use in their residence and is based on the pre-HST cost of residential energy. To be eligible for the rebate, the energy product must be consumed for residential purposes; have been purchased from an HST registrant; and have HST charged. The program was put into effective for invoices dated on or after September 1, 2011 for heating oil, propane and other energy products. For electricity, the rebate was applied to invoices with a meter reading date on or after October 1, 2011.

Responsible Management of Pension Funds:

Government is strategically focused on the responsible management of pensions funds and has made significant investments in recent years to reduce the unfunded pension liability. A pivotal role played by the Department of Finance in supporting this commitment is with respect to the responsible management of the investment portfolio. During the 2011-12 fiscal year, a change in the structure of the asset mix with respect to foreign equities was implemented with a view

to providing improved investment growth and risk reduction. The historical target allocation of 20% US equities and 20% non-North American equities was revised to an overall target allocation of 40% global equities. This change resulted in the hiring of investment managers that invest globally, in both developed and emerging markets. Similar strategies to further diversify the portfolio of investments and reduce the volatility of investment returns will continue to be explored.

Additionally, Government's internal capacity in pensions management was strengthen by dedicating a professional resource within the Department of Finance to the oversight of the pension fund's investment portfolio. This position will be critical as Government moves to implement its strategic commitment to reduce the Province's unfunded liability and stabilize pension plans.

6.0 LOOKING FORWARD - THE YEAR AHEAD

The 2012-13 fiscal year will bring fiscal challenges. The offset payments under the Atlantic Accord have ended and both the Terra Nova and White Rose Floating Production Storage and Offloading units are scheduled for maintenance shutdowns resulting in reduced revenues fro the Province. This decline in provincial revenues will challenge the ability of the Department of Finance to support Government's commitment to balance the objectives of fiscal sustainability with long-term strategic investments.

Additionally, the Department of Finance will focus on providing advice and support to Government in its commitment to address the unfunded pensions liability and post-retirement benefits liability. Economic recessions over the past decade have meant ongoing market instability and sustained downturns in the global economy, bringing with them large drops in value for most pension plans throughout North America. Increased life expectancy coupled with early retirement creates a significant challenge for current pension systems. Most public sector pension plans in Canada have early retirement provisions. Many retirees in recent decades have taken advantage of these provisions. The result has been an average decrease in retirement age of 7 years. When early retirement is combined with the average increase in life expectancy of 4 years, this means that, on average, pensions to someone retiring today will be paid approximately 11 more years than was expected in the 1970's. Additionally, Canada is experiencing a population deficiency created by baby boomers that had fewer children than their parents. This has created a lack of growth in the working age population, which has been shown to reduce the rate of economic growth. What this means for many pension plans, is that the next generation will contribute more to a pension plan than their baby boomer predecessors. Further, they will receive less in benefits because they will contribute both towards their own pensions and to fund the deficits that have emerged during the last 12 years.

As well, in during the 2012-13 fiscal year the Pension Investment Committee (PIC), the committee appointed by Government to advise the Minister of Finance on the pension fund, will be undertaking two major activities that will support the Department's management of the unfunded pension liability: a governance review to ensure that the PIC is meeting its fiduciary obligations to the pension plans' stakeholders and an asset/ liability study to ensure that the portfolio of investments is structured appropriately to maximize returns within an acceptable level of risk given the extent of the pension liabilities which the portfolio is designed to support.

As Government's central agency responsible for economic and statistical information, the Department of Finance will be challenged to respond to the increasing demand for quantitative services in support of Government decision-making processes.

Furthermore, Statistics Canada has also reduced the scope of its services, placing a greater demand on this Province to compensate for the resulting information gap. An example of this includes the discontinuance of the mandatory long-form national census. The long-form has now been replaced with a new voluntary questionnaire known as the National Household Survey, which is expected to make it more difficult to develop data for public policy responses to changing demographic conditions.

Despite these challenges, the Department remains confident in its ability to continue to provide strategic leadership across Government in the development of fiscal, financial, economic policy and statistical information. The Department will also continue to provide strong leadership in the management and control of provincial finances to ensure appropriate use of public funds. This confidence is grounded by the professionalism, expertise and dedication to quality work exhibited by the Department's employees on a daily basis.

6.1 2012-13 Performance Indicators

The following results are planned for the 2012-13 fiscal year, as a means of achieving the targets established in the Department's 2011-14 Strategic Plan.

Strategic Issue#1: Information Capacity

Objective: *By March 31, 2013, the Department of Finance will have initiated the development of indicators to be used as a means of determining the impacts of provincial demographics and economic change on the design and delivery of Government programs and services.*

Measure: initiated development of indicators

Indicators:

- Prioritized list of indicators to be developed
- Secured access to the required data sources
- Established a plan to guide development of indicators and potential dissemination of data

Strategic Issue #2: Financial Planning

Objective: *By March 31, 2013, the Department of Finance will have begun making available the results of the integrated expenditure and revenue forecasting data to inform Government's financial planning processes.*

Measure: initiate dissemination of results from integration of expenditure and revenue forecasting data

Indicators:

- Developed and tested templates for integration of forecasting data
- Provided additional training to users of the templates
- Utilized templates to integrate the forecasting data in support of the 2012-13 budget preparation process

Strategic Issue #3: Financial Management

Objective: *By March 31, 2013, the Department of Finance will have began using the new corporate financial reporting framework and completed its evaluation of options for enhancing the financial management of unfunded pension liability and the post-retirement benefits liability.*

Measure 1: implemented corporate financial reporting

Indicators:

- Prioritized corporate reporting needs
- Identified required modifications to existing templates
- Designed the templates
- Tested the utility of the templates

Measure 2: completed evaluation of options for enhancing the financial management of unfunded pension liability and the post-retirement benefits liability

Indicators:

- Assessed options implemented by other jurisdictions to improve upon their financial management of the unfunded pension liability and the post-retirement benefits liability
- Initiated a review of the current governance model
- Monitored the transition to a Global Equity Investment Strategy
- Provided an oversight role for the completion of an asset-liability study on the Pooled Pension Fund

7.0 FINANCIAL INFORMATION

Expenditure and revenue figures included in this document are based on public information provided in the **Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2012** (Unaudited)

		Estimates	
	Actual	**Amended**	**Original**
EXECUTIVE AND SUPPORT SERVICES			
1.1.01 Minister's Office	299,679	400,500	400,500
General Administration			
1.2.01 Executive Support	1,831,090	1,857,900	1,509,000
1.2.02 Treasury Board Support	421,537	433,000	407,600
1.2.03 Administrative Support	316,450	479,600	351,600
Total: General Administration	2,569,077	2,770,500	2,268,200
General Government			
1.3.01 Government Personnel Costs	67,704,558	68,954,300	67,954,300
TOTAL: EXECUTIVE AND SUPPORT SERVICES	**70,573,314**	**72,125,300**	**70,623,000**
FINANCIAL ADMINISTRATION			
Financial Planning and Benefits Administration			
2.1.01 Pensions Administration	85,591	-	-
2.1.02 Budgeting	1,090,964	1,236,700	1,236,700
2.1.03 Insurance	415,489	429,000	429,000
2.1.04 Financial Assistance	-	5,000,000	6,000,000
2.1.05 Financial Assistance	-	500,000	500,000
Total: Financial Planning and Benefits Administration	1,592,044	7,165,700	8,165,700
Taxation and Fiscal Policy			
2.2.01 Tax Policy	931,314	1,062,800	1,062,800
2.2.02 Fiscal Policy	410,697	493,400	493,400
2.2.03 Project Analysis	540,350	585,100	585,100
2.2.04 Tax Administration	3,494,967	4,843,200	5,203,200
2.2.05 Debt Management	412,946	480,100	582,400
2.2.06 Special Assistance	15,650	50,000	50,000
Total: Taxation and Fiscal Policy	5,805,924	7,514,600	7,976,900
Economics and Statistics Branch			
2.3.01 Economics	923,617	777,600	659,100
2.3.02 Statistics	2,105,876	1,279,100	1,437,600
Total: Economics and Statistics	3,029,493	2,056,700	2,096,700
Office of the Comptroller General			
2.4.01 Office of the Comptroller General	5,552,259	5,857,600	5,857,600
2.4.02 Corporate Services	4,491,269	4,881,800	4,881,800
Total: Office of the Comptroller General	10,043,528	10,739,400	10,739,400
TOTAL: FINANCIAL ADMINISTRATION	**20,470,989**	**27,476,400**	**28,978,700**
TOTAL: DEPARTMENT	**91,044,303**	**99,601,700**	**99,601,700**

Note: The audited financial statements will be made available to the public when the **Volume I – Consolidated Summary Financial Statements** and the **Volume II – Consolidated Revenue Fund Financial Statements** are tabled in the House of Assembly.

8.0 APPENDIX

Public Service Pension Plan Joint Trusteeship Transition Committee Annual Report 2011-12

The *Agreement on Pensions*, which forms part of the current Public Service Collective Agreement, mandated the establishment of a Joint Trusteeship Transition Committee (the Committee). The mandate of this Committee is to recommend to the relevant parties, a joint pension trust structure to govern the activities of the Public Service Pension Plan (PSPP). Under this arrangement, an independent board of trustees is responsible for the administration of the PSPP, including the setting of benefits and investment of the Fund.

The Committee includes representatives of the five unions participating in the PSPP, Government and employers such as Newfoundland and Labrador Hydro and the Newfoundland and Labrador Health Board Association.

Originally, this process was targeted for completion in Spring 2003. A revised target was set for April 2008. However, union representatives on the Committee have indicated that until the issue of the unfunded pension liability was fully resolved, they were not prepared to move forward on the Committee's mandate. As a result, the Committee has been inactive since 2003. If the Committee does become active again, the planning and reporting requirements of the *Transparency and Accountability Act* will be fulfilled in a timely manner.

The Department of Finance Annual Report
For Fiscal Year Ending March 31, 2012

Newfoundland
Labrador